

December 2, 2010

Dr. George Diehr, Chairman  
Investment Committee  
California Public Employees' Retirement System  
Sacramento, California 95814


Re: Strategic Asset Allocation Staff Recommendations

Dear Dr. Diehr,

The purpose of this letter is to provide the Investment Committee with Pension Consulting Alliance's (PCA) opinion regarding Agenda Item 2 for the December 13, 2010 Investment Committee meeting. In summary, PCA (1) supports the staff's recommendation to approve the alternative asset classification as detailed in this agenda item, and (2) believes that the staff has presented a number of portfolio options that address the board's desire to see alternative allocations to those presented at the November 8-9, 2010 Asset-Liability Management Workshop. The candidate portfolios focus on a subset of alternative allocations within a tight range of risk and return. PCA believes the Committee has been provided with a reasonable range of risk / return options from which to make a decision.

CalPERS' staff and consultants have engaged in a rigorous process to assist the Investment Committee in the consideration of an Alternative Asset Classification framework. This risk-based framework incorporates leading-edge thinking, moving towards functional investment classes, from a framework focused on asset classes. PCA supports the outcome of this process and believes the staff has done a good job in framing the benefits of this alternative classification, as well as responding to the input from the Board.

The alternatives presented on page 7 of the agenda item are all reasonable and prudent. There are minor differences, mainly driven by different allocations between growth (equity) and other investment classifications.



PCA believes that the Committee can make an informed decision on the basis of the information provided in the agenda item.

We look forward to addressing any questions or clarifications on this matter at the Investment Committee meeting.

Respectfully,



Allan Emkin